

**MINUTES
AUDIT SUBCOMMITTEE
OF THE
LEGISLATIVE MANAGEMENT COMMITTEE**

The Audit Subcommittee of the Legislative Management Committee met in Room 250, State Capitol Building, Salt Lake City, Ut, May 17, 2011 from 4:30 p.m. until 6:20 p.m.

Committee Members Present: President Michael Waddoups, Co-Chairman
 Speaker Rebecca Lockhart, Co-Chairman
 Senator Ross Romero
 Representative David Litvack

Legislative Audit Staff: John Schaff, Auditor General
 Rick Coleman, Deputy Auditor General
Excused Tim Osterstock, Audit Manager
 Darin Underwood, Audit Manager
 Lynda Maynard, Recording Secretary
 Brian Dean, Audit Supervisor
 James Behunin, Audit Supervisor
 Deanna Herring, Audit Supervisor
 Chris Otto, Legis Lead Auditor
 Benn Buys, Perf Auditor
 Jesse Martinson, Perf Auditor
 David Gibson, IT Auditor/Systems

Other Interested Parties: Mary Shumway, State CTE Dir., USOE
 Shelli Ivie, CTE
 Natalie Grange, USOE
 Dennis Kellen, Executive Director, DABC
 Dr. Richard Sperry, Commissioner, DABC
 Leonard Langford, Deputy Dir., Finance, DABC
 Chris Christensen, Business Systems Project Mgr.,

DABC

John Freeman, Deputy Dir., Operations, DABC
Earl Dorius, Deputy Dir., Licensing & Compliance,

DABC

Vickie Ashby, PIO, Admin Asst., DABC
Senator Jerry Stevenson
Senator John Valentine
Senator Curtis Bramble
Rep. Carol Spackman Moss
Rep John Mathis
Fran Brown, Marinello Schools

Ramona Wilson, Image Works Academy
Theresa Taylor, Renaissance Academy
Jim Rates, Cameo College
Brenda Saharan, Cameo College
Debra Bardic, Salt Lake Community College
J Lee Bardic, Salt Lake Community College
Jill Flygore, Policy and Budget Analyst, GOPB
Karen Silver, Salt Lake Community Action

Program

Lisa Riley Roche, *Deseret News/KSL*
Chris Vanocur, *ABC4 TV*
And others as listed

1. Call to Order

President Waddoups called the meeting to order at 4:30 p.m.

2. Approval of Minutes

Motion: Speaker Lockhart made a motion that the minutes from January 18, 2011, Audit Subcommittee meeting be approved. The motion passed unanimously.

3a. **A Review of Public Education Cosmetology Programs** (Report #2011-05) Presented by James Behunin, Audit Supervisor

Discussion following Presentation

Mary Shumway, Director, CTE, Utah State Office of Education, expressed her appreciation for the staff and their work in all areas of the cosmetology program. Ms. Shumway said that the CTE Department takes very seriously their programming and will continue to work to ensure the highest quality CTE programs are meeting the current needs.

Motion: Speaker Lockhart made a motion that the **Review of Public Education Cosmetology Programs** be referred to the Public Education Appropriations Subcommittee and the Education Interim Committee. The motion passed unanimously.

3b. **A Review of DABC Actions Regarding a \$300,000 Loss from a Package Agency** (Report #2011-04) Presented by Brian Dean, Audit Supervisor

Discussion following Presentation

Commissioner Richard Sperry, DABC, told the Audit Subcommittee that, as a representative for the Commission, he would like to commend the auditors for their reasonable, fair minded work with DABC although there are a few things the Commission disagrees with; however,

- The Commission did not know about the financial difficulties of the Eden Package Agency, although there is a question as to whether the Commission should have know,
- Certain reasonable standards might be expected to apply— that the Commission should have been brought into the loop,
- The Commission does not believe that the Department's failure to report to the Commission was an attempt to hide bad management decisions on their part.

Dennis Kellen, Executive Director, DABC, explained that because of the problems with the Eden Package Agency, DABC has put new procedures in place to make sure these kinds of problems do not happen again. Mr. Kellen went on to explain that—

- When a package agency operator is running into financial difficulties, DABC tries to work with the agency to help them stay in business and succeed.
- DABC carries insurance, through the State Risk Management, to cover any losses due to theft or other losses.
- A newly created position in DABC has a lead auditor working on nothing but taking care of consignment package agencies. This auditor is to report monthly to the Commission on any activity involving the package agencies.

John Freeman, Deputy Dir., Operations, DABC, explained the licensing procedures and differences between the Type 2 and Type 3 Package Agency Licenses to the Audit Subcommittee, including the process for the background checks.

Motion: Speaker Lockhart made a motion that the **Review of DABC actions Regarding the \$300,000 Lost from a Package Agency** be referred to the Business, Economic Development and Labor Appropriations Subcommittee and the Business and Labor Interim Committee. The motion passed unanimously.

President Waddoups told those in attendance that the following two Informal Letter Reports (ILR's) were available to the public but would not be presented—

- A Performance Audit of the Disability Law Center (ILR2011-A)
- Competitive Business Practices of the Utah Local Governments Trust (ILR2011-B)

4. New Audit Request

John Schaff, Auditor General, gave a brief description of the following new audit requests:

- Eligibility Services In Medicaid

- Auditor General's Medicaid Fraud Control Unit
- DWS's Control Over Medicaid Client Fraud
- In-depth Follow-up Audit of PEHP
- In-depth Follow-up audit of the Division of Parks and Recreation
- Efficiency and Effectiveness of the Division of Professional Licensing (DOPL)
- Administrative Costs and Efficiency of School Districts and Charter Schools
- Duplication of Water Resource Programs
- Cost of Legal Counsel at the University of Utah
- Utah Telecommunication Open Infrastructure Agency (UTOPIA)
- Division of Housing and Community Development
- Salt Lake County Public Safety Financial Analysis
- Utah Radioactive Waste Disposal and Storage Fees
- DABC Management of Package Agencies

After a discussion with the Audit Subcommittee, the following motion was made:

Motion: Speaker Lockhart made a motion that the following requests for new audits be approved and moved to Future Audits:

- DWS Control of Medicaid Client Fraud,
- DABC Management of Package Agencies
- Utah Radioactive Waste Disposal and Storage Fees
- Utah Telecommunications Open Infrastructure Agency (UTOPIA)
- Division of Housing and Community Development.

The motion passed unanimously.

John Schaff also asked the Audit Subcommittee to approve three audits that are currently in process. These requests have previously been discussed with the Audit Subcommittee Chairs:

- 1 Actuarial Study of PEHP Contingency Reserve
- 2 Sale of Conservation Tags by the Division of Wildlife Resources (DNR)
- 3 Graduation Rates and Excess Hours of Students in Higher Education

Motion: Speaker Lockhart made a motion that the following three currently staffed audits be approved to move forward:

- Actuarial Study of PEHP Contingency Reserves,
- Sale of Conservation Tags by the Division of Wildlife Resources, and
- Graduation Rates and Excess Hours of Students in Higher Education.

The motion passed unanimously.

5. Other Business

John Schaff, Auditor General discussed the three General Session bills that will have an impact on the Office of the Legislative Auditor General—

Budgets HB176, Sponsored by Rep LaVar Christensen - In-depth Budget Reviews of State
 SJR05, Sponsored by Senator Wayne Niederhauser - Fiscal Note Review Process
 HB152, Sponsored by Rep Bill Wright - School Community Council amendments

6. Adjournment

President Waddoups adjourned the meeting at 6:20 p.m.